

# TENNESSEE REGULATORY AUTHORITY

Sara Kyle, Chairman  
Lynn Greer, Director  
Melvin Malone, Director

460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

July 9, 2001

Mr. T.G. Pappas, Esq.  
Bass, Berry & Sims PLC  
315 Deadrick Street, Suite 2700  
Nashville, TN 37238-0002

Re: 01-00451 – Petition of United Telephone Company to Change and Increase Certain Intrastate Rates and Charges so as to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful in Furnishing Telephone Service to Its Customers in Tennessee and to Adopt New and Realistic Depreciation Rates for Central Office Equipment

Dear Mr. Pappas:

To assist the Authority in its examination of the above-referenced matter, please respond to the following requests for data from United Telephone Company:

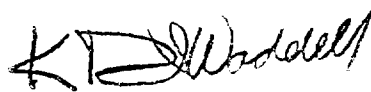
1. Provide a listing by name, business address, and contact person of all non-regulated operations or affiliates, including but not limited to, Internet, cable television, and long distance telephone service providers.
2. For each non-regulated operation or affiliate identified in item no. 1, above, provide a balance sheet and income statement for the years ended 1998, 1999, 2000, and year-to-date 2001.
3. Provide a complete listing by Social Security Number and name of persons currently employed by United Telephone. Designate which employees, if any, are part-time.
4. Provide a complete listing by Social Security Number and name of persons currently employed by each non-regulated operation or affiliate identified in item no. 1, above. Designate which employees, if any, are part-time.
5. Provide a copy of any cost allocation manual or plan that is used to allocate common expenses between United Telephone and the non-regulated operations or affiliates identified in item no. 1, above.

6. Describe in detail the procedures used to allocate the following between United Telephone and the non-regulated operations or affiliates identified in item no. 1, above:
  - a. Salaries, wages and benefits,
  - b. Property, plant, and equipment,
  - c. Rents,
  - d. Advertising,
  - e. Operating expenses, and
  - f. General corporate expenses.
7. Describe in detail all management assumptions that were used to develop each of the following revenue amounts reported in the 2001 and 2002 Present Rates columns on Enoch Exhibit 10:
  - a. Local Revenues,
  - b. Access Revenues,
  - c. Long Distance Revenues,
  - d. Miscellaneous Revenue, and
  - e. Uncollectible Revenue.
8. Describe in detail all management assumptions that were used to develop each of the following expense amounts reported in the 2001 and 2002 Present Rates columns on Enoch Exhibit 5:
  - a. Plant Specific,
  - b. Plant Non-Specific (Excluding Depreciation),
  - c. Customer Operations,
  - d. Corporate Operations,
  - e. Taxes Other Than Income,
  - f. Operating Income Taxes.
9. Reconcile the difference between the Operating Income Taxes reported in the 2001 and 2002 Present Rates columns at line 8 on Enoch Exhibit 5 and the cumulative amount of Excise Tax reported in the 2001 and 2002 Present Rates columns at line 13 on Enoch Exhibit 8 and Federal Income Tax Expense reported in the 2001 and 2002 Present Rates columns at line 18 on Enoch Exhibit 8.
10. Describe in detail all management assumptions that were used to develop the Total Additions to Rate Base and the Total Deductions from Rate Base reported in the 2001 and 2002 columns on Enoch Exhibit 2.
11. Provide a general ledger by month for the year-to-date 2001.
12. Provide by account category the separations factors for 1999, 2000, and year-to-date 2001.

13. Provide by account category the non-regulated factors for 1999, 2000, and year-to-date 2001
14. Provide a listing of all non-recurring items that were booked during 1999, 2000, and year-to-date 2001. For each non-recurring item, include the account number, account title, amount booked, and description.
15. Provide a listing of all prior period adjustments that were booked during 1999, 2000, and year-to-date 2001. For each prior period adjustment, include the account number, account title, amount booked, and description.
16. Provide a listing of all Y2K expenditures that were booked during 1999, 2000, and year-to-date 2001. For each Y2K expenditure, include the account number, account title, amount booked, and description.
17. Provide a listing of all charitable contributions booked during 1999, 2000, and year-to-date 2001. For each charitable contribution, include the account number, account title, amount booked, and description.
18. Provide a listing of expenditures incurred in 1999, 2000, and year-to-date 2001 that were due to acts of God (e.g., tornadoes or wind damage, ice storms, fires, floods, etc.)
19. Provide the FUTA and SUTA rates and base for the year 2000 and for the attrition period ending December 31, 2002.
20. Provide the worker's compensation rates and total amounts paid for the year 2000 and for the attrition period ending December 31, 2002.
21. Provide a complete copy of United Telephone's responses to the data request from the Consumer Advocate and Protection Division dated June 14, 2001 (copy attached).

We request your responses by **Friday, July 27, 2001**. If you have any questions concerning any of the above requests for information, contact Joe Shirley at 615-741-2904, extension 152.

Sincerely,



K. David Waddell  
Executive Secretary

Attachment

cc: Herb Bivens  
Docket File

# Office of the Attorney General



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June 14, 2001

Mr. T.G. Pappas, Esq.  
Bass, Berry & Sims PLC  
315 Deadrick Street, Suite 2700  
Nashville, Tennessee 37238-0002

Dear Mr. Pappas:

To assist in our investigation of United Telephone Company's ("United") application for an Adjustment in Rates and Charges, the Approval of Revised Tariffs and the Approval of Revised Service Regulations (TRA Docket No. 01-00451), please furnish two copies of the information itemized in the attachment to this letter.

Please comply with the following instructions for compiling the requested data:

- (1) Each of the response should begin by restating the item requested.
- (2) If several sheets are required to answer an item, each sheet should be appropriately labeled and indexed, for example, Item 1(a), Sheet 1 of 4.
- (3) Please respond fully to the request even if the data has been partially supplied in prior filings or dockets. It is requested that the information be submitted to this office at P.O. Box 20207, Nashville, Tennessee, 37202-0207.

We request your responses by July 14, 2001. If you need clarification of any attached request, please contact Mr. Terry Buckner at (615) 741-8727 before furnishing the response.

Sincerely,

A handwritten signature in black ink that reads "Vance L. Broemel".

Vance Broemel  
Consumer Advocate and Protection Division

cc: David Waddell, Executive Secretary, TRA  
Herb Bivens, General Manager

## GENERAL

1. Provide the substance of fact and opinion and grounds for the opinion of any and all abnormal conditions or changes in conditions that occurred between January 1, 1998 and the anticipated hearing in this case. Your discussion should include, but not be limited to:
  - a. Management changes.
  - b. Operational changes.
  - c. Administrative changes.
  - d. Any recent or pending mergers, consolidations or acquisitions.
  - e. Expenses.
  - f. Revenues.
2. State the effect that each of the applicable changes discussed in Item 1 has had and will have on United's revenues, expenses, rate base, and capital structure, as well as United's method of allocating each change among its regulated and unregulated operations.
3. Provide a current organizational chart for United, showing United's officers and other key personnel, the departments they head, and to whom they report, from department level or office up.
4. Provide copies of the annual CPA audited opinion reports of United for the years 1998, 1999 and 2000.
5. Provide an explanation of any differences in the CPA's reports and United's internal financial statements.
6. Provide a current chart of accounts for United.
7. Provide a 24 month general ledger for the period ending December 31, 2000.
8. Provide United's TRA annual report, Form M for the year 2000.

### **REVENUES (Excluding Non-Regulated)**

9. Provide the actual Local Service Revenues for the years 1998-2000 by revenue account. Also, provide the supporting workpapers and documentation used in developing the forecast of Local Service Revenues for the years 2001 and 2002 per Enoch Exhibit 10. Include in your response access lines, growth rates, tariff rates and revenue accounts.
10. Provide the actual Network Access - Interstate, Switched Access - Interstate and Special Access - Interstate Revenues for the years 1998-2000 by revenue account. Also, provide the supporting workpapers and documentation used in developing the forecast of Network Access - Interstate, Switched Access - Interstate and Special Access - Interstate Revenues for the years 2001 and 2002 per Enoch Exhibit 10. Include in your response copies of the monthly NECA AS3000 Settlement statements for the years 1998-2000, access lines, growth rates, minutes of use ("MOU") and revenue accounts.
11. Provide the actual Switched Access - Intrastate and Special Access - Intrastate Revenues for the years 1998-2000 by revenue account. Also, provide the supporting workpapers and documentation used in developing the forecast of Switched Access - Intrastate and Special Access - Intrastate Revenues for the years 2001 and 2002 per Enoch Exhibit 10. Include in your response copies of the monthly BellSouth SN-642 Settlement statements for the years 1998-2000, access lines, growth rates, MOU for InterLATA and IntraLATA by month and revenue accounts.
12. Provide the actual Miscellaneous Revenues for the years 1998-2000 by revenue account. Also, provide the supporting workpapers and documentation used in developing the forecast of Miscellaneous Revenues for the years 2001 and 2002 per Enoch Exhibit 10. Include in your response contract rates, growth rates and revenue accounts.
13. Please explain why forecasted revenues for 2001 are \$9,716,113 per Enoch Exhibit 6, when actual revenues as reported on the TRA 3.01 December 2000 surveillance report was \$9,893,592, a 6% increase over 1999?

## **EXPENSES (Excluding Non-Regulated and Taxes)**

14. Provide a schedule of employees for the 12 months ending December 31, 2000, identifying them as part or full time, and the account to which their compensation is charged. Identify the regular, overtime and total hours worked during the year. Also, identify the regular and total earnings during the year. For those employees working only a partial year, give dates of employment. Identify pay rates at December 31, 2000, and the projected amount and date of raises through the year ending December 31, 2002. Where appropriate, show the allocation of compensation between regulated and non-regulated operations. Also, indicate any anticipated changes in employment level through December 31, 2002.
15. Provide a schedule showing by month, from January 1, 1998, through December 31, 2000, identifying the amount and the percentage of total payroll capitalized.
16. For the year ended December 31, 2001 and the attrition year ending December 31, 2002 provide detailed workpapers supporting the calculation of the Life Insurance expense, Long-Term Disability, Hospitalization expenses, and other miscellaneous employee insurance expenses. Show the total and capitalized amount. Provide actual rates for the benefits that United pays. Provide the amounts that the employee contributes for these benefits.
17. Provide a liability and property insurance schedule for the year ending December 31, 2000, identifying the policies in effect, the type of coverage, the coverage period, the annual premiums, the amount included as an expense, the account charged, the beneficiaries, and the allocation used. Also, provide the above information for those policies currently in effect and any anticipated changes in policies through December 31, 2002.
18. Does United have a written policy regarding bonuses? If so, please provide a copy of this policy. Were any bonuses paid or accrued in the year ending December 31, 2000? If so, please provide a schedule of employees, showing the amount of the bonus paid or accrued and the basis of the bonus calculation. Provide the same information for the attrition period ending December 31, 2002.
19. Provide the following items concerning the rental of any equipment or other property:
  - a. Lease agreements.
  - b. Amount of expense for the year ending December 31, 2000.
20. Provide a schedule identifying all directors, meetings attended, and the amount of directors' fees attributable to each meeting for the year ending December 31, 2000.



21. Explain the calculation and provide workpapers concerning the United's expense growth factor for the Plant Specific, Plant Non-Specific, Customer Operations and Corporate Operations expense amounts and categories per Enoch Exhibit 5.
22. If a pension plan is in effect for United employees, please provide the latest projection by an actuarial study of the amount of funded pension expense for the year ending December 31, 2000 and the year ending December 31, 2002.
23. Provide United's current TRA approved depreciation rates by account for regulated plant in service. Also, include any amortization expense by account for the years 1998, 1999, 2000, 2001, and 2002.
24. Provide United's regulated plant in service and accumulated depreciation by account at December 31, 2000.
25. Provide United's regulated plant additions and retirements by month, by account for the years 2001 and 2002. Also, include the Construction Work in Progress amounts at December 31, 2000, 2001 and 2002.
26. Provide United's regulated plant cost of removal and salvage amounts by month, by account for the years 2001 and 2002.
27. Provide a schedule of the requested depreciation rates as indicated in question 8, page 2 of Enoch's direct testimony. Also, include all workpapers and documentation supporting United's calculation of depreciation expense for the years 2001 and 2002 (present and proposed rates) per Enoch Exhibit 5.
28. Provide a schedule of the amortization expense of extraordinary Central office Equipment retirements as ordered in TPSC Docket #95-02224 by amount, by account, by year.
29. Please give detailed business reasons as to why United had extraordinary retirements of \$4,517,786 per Enoch Exhibit 12.

## TAXES

30. Provide copies of the following tax returns or tax statements:
  - a. Tennessee Franchise and Excise tax returns for the last three years.
  - b. All property tax statements for the last three years.
  - c. Employer's Quarterly Federal Tax Returns (Form 941) for the last three years.
  - d. Employer's Annual Federal Unemployment Tax Return (Form 940) for the last three years.
  - e. Employer's Quarterly Contribution Report to the Tennessee Department of Employment Security for the last three years.
  - f. TRA Inspection Fee for the last three years.
31. Provide the following Federal Income Tax data for Tennessee operations by month for the year ending December 31, 2000 and for the attrition year ending December 31, 2002:
  - a. The calculation of the Federal Income Tax expense for United. The calculated amount should reconcile to the amount reported on the Tennessee PSC 3.03 surveillance reports.
  - b. A detailed calculation of the permanent book and tax differences.
  - c. A detailed calculation of the timing tax differences.
  - d. Operating federal income taxes deferred-accelerated depreciation.
  - e. Federal income taxes-operating.
  - f. Income credits resulting from prior deferrals of federal income taxes.
32. Provide a reconciliation of book to taxable income and a calculation of the federal income tax expense year December 31, 2000 and for the attrition year ending December 31, 2002.

### RATE BASE (Excluding Working Capital)

33. Provide monthly plant additions and retirements by account number for the years ended 1998, 1999 and 2000. Please break down plant additions into normal or special projects defined as follows:

Normal construction requirements should be considered to include the needs created through normal system expansion such as serving residential areas, shopping areas, old home conversions, replacements of tools and work equipment, transportation equipment, etc. Special construction requirements should be considered to arise from extensive replacement of old facilities which cannot be foreseen, major expansion projects such as industrial parks, system improvements and changes required by governmental action such as street improvement and relocations, community and neighborhood development, bridge replacements, etc. These requirements should be considered to be outside the control of United.

34. Break down 2001 and through December 31, 2002 budgeted plant additions between normal and special project using the criteria defined in the above item. Provide sufficient details of individual projects as to date of inception and completion, and methods of financing. Also, identify those plant additions for 2000 through December 31, 2001 which have already been incurred.
35. Identify, by account, for the 12 months ended December 31, 1998, 1999 and 2000 the salvage and cost of removal for retirements.
36. Describe United's budgeting process including, but not limited to the following:
- How far in advance are operating and construction budgets prepared? On what basis is the total operating and construction budget determined? Explain the "approval process" in budget development.
  - How many views or updates of the same budget year are made before a final view is adopted?
  - Are budgets prepared on a monthly, quarterly, or annual basis?
  - Which individual or department has overall responsibility for budgets/reconciliations?
  - Once a final budget has been adopted, are budget to actual (reconciliations) comparisons routinely made? How frequently are reconciliations prepared? by whom?
  - For 1999 and 2000 provide copies of all budgets, budget to actual comparisons, and all supporting workpapers on a total Company and Tennessee only basis.

37. Provide schedules showing the development of the average account balances listed below for the years ended December 31, 2001 and 2002. (If partially provided in other items, provide remaining data here.)

- a. Utility plant in service.
- b. Construction work in progress.
- c. Materials and Supplies.
- d. Customer Deposits.
- f. Interest on Customer Deposits
- g. Accumulated Deferred FIT.
- h. Accumulated Depreciation.
- i. Unamortized Extraordinary Retirement.
- j. Working Capital.

## **OTHER UNREGULATED OPERATIONS**

38. Explain the nature and extent of each of United's non-regulated operations.
39. Provide an income statement and balance sheet for all non-regulated operations. For each year, identify each class of revenue separately. The information should include the following actual data for 1998, 1999 and 2000 and forecasted data for 2001 and 2002:
  - a. The direct expense incurred by each operation.
  - b. The general office expense allocated to each operation.
40. Provide a complete explanation and calculation of how costs (other than salaries and wages as requested above) were allocated to non-regulated operations for the year ending December 31, 2000 and for the attrition period ending December 31, 2002.
41. Provide the percentage of non-regulated labor for the year ending December 31, 2000.
42. If possible, provide the amount of operating expenses associated with interstate billing and collection by account for the year 2000.